STANDARD & POOR'S

Public Finance

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Albany, New York

Credit Profile

US$26.01 mil GO bnds dtd 06/15/2006 due 06/15/2020	A
Sale date: 15-MAY-2006	

AFFIRMED

$21.415 mil. Albany GO (FGIC)	AAA/A(SPUR)
$46.255 mil. Albany GO (FSA)	AAA/A(SPUR)
$17.840 mil. Albany GO (MBIA)	AAA/A(SPUR)
OUTLOOK:	POSITIVE

Rationale

Standard & Poor's Ratings Services revised its outlook on Albany, N.Y.'s outstanding GO bonds to positive from stable based on the significant amount of ongoing economic investment in the city, both in the downtown area as well as in other planned developments.

In addition, Standard & Poor's assigned its 'A' rating to the city's taxable and nontaxable GO bonds, series 2006, reflecting the city's:

- Stable, government-centered economy located in the capital region of New York State;
- Growing property tax base, following several years of decline;
- Modestly improving financial position and management's commitment to rebuilding general fund balance reserves; and
- Moderate debt burden, manageable capital improvement plan, and rapid debt amortization.

Mitigating credit factors include below-average wealth and income levels.

The bonds are secured by the city's faith and credit pledge. Proceeds of the series 2006 nontaxable bonds will be used to refund prior outstanding bond anticipation notes (BANs) and finance various capital projects, including road reconstruction, landfill expansion, and recreational improvements. Proceeds from the series 2006 taxable bonds will be used to refund prior outstanding BANs issued for financing contributions to retirement funds.

Albany, the state capital, serves as the regional center of New York State's capital region. Currently, state government (56,049 employees), higher education entities such as the State University of New York at Albany (4,500), and several hospitals (11,000), which are all planning expansions, drive the employment base. The service and government sectors account for 34% and 26% of Albany County employment, respectively. Economic growth has historically been below average. However, recent downtown development and other planned economic developments are expected to positively affect the city's employment and tax base in the coming years. Two major computer chip R&D and manufacturing firms, SEMATECH and Tokyo Electron, have relocated into The Albany NanoTech complex. Albany NanoTech has generated more than $1 billion of economic impact in seven years.

Albany's current population of 94,226 represents an almost 6% decline since the 1990 census. In the future, city officials expect the population to increase as downtown development projects come online. Wealth and income levels have historically been below county, state, and national levels. However, a sizeable student population partly mitigates these numbers. City unemployment, 4.4% in 2005, has historically been below the state and national levels, attributable to the large number of government employees.

The city's finances, which had deteriorated during the late 1990s, have begun to improve in the past several years, following annual state aid payments in lieu of taxes, (PILOTs) approved by the legislature (Section 19-A of the Public Lands Law), for the Empire State Plaza government complex, totaling $272.5 million for 30 years starting in fiscal 2000. Fiscal 2004 (December 31) closed with a solid $4.7 million surplus as a result of higher-than-expected state payments. The ending general fund balance was $11.5 million, or a healthier 8.2% of expenditures, of which $9.9 million was unreserved (7.1%). Although still unaudited, fiscal 2005 finances are expected to close with another operating surplus, which will again contribute to growing the general fund balance to $15.5 million. The city's fiscal 2006 budget is the sixth consecutive structurally balanced budget and totals $145.1 million.

The city's projected overall debt burden is moderate at $2,003 per capita, or 4.7% of market value. The city's five-year (2006-2010) capital improvement plan (CIP) is manageable, and totals $46.5 million, primarily for parks/recreation and police. Management anticipates issuing $2.25 million bond anticipation notes and $10 million in revenue anticipation notes, in the summer of 2006.

Outlook

The positive outlook reflects not only the current economic investment in Albany, but also the ongoing replenishment of reserve levels. If the current economic development translates into future growth in both the employment and tax base, and to a lesser extent, an increase in population and higher income indicators, a rating upgrade may be warranted.

Economy

The relocation of SEMATECH and Tokyo Electron, and other recent and ongoing private sector building activity should help to initially stabilize and ultimately boost the city's employment and tax base. The Albany NanoTech complex is located within the SUNY-Albany campus, which exempts these firms from property taxes. This $3 billion complex currently has more than 500 researchers and staff working on site from industry, academia, and research consortia.

In 2006, state leaders announced the $435 million Institute for Nanoelectronics Discovery and Exploration (INDEX) to be located at the Albany NanoTech. This institute will bring together researchers from both the public and private sectors, and is one of only two sites selected in the United States. The state has committed to investing $80 million towards the development of the institute. Furthermore, located adjacent to the campus is the 300-acre Harriman State Office Campus, which has also been slated to be converted into a technology R&D park, with new technology businesses directly connected to SEMATECH and Tokyo Electron. A master plan consultant was hired and released the plan to the public this year (2006). To date, the city has set a goal of phased implementation for the campus beginning before the end of this year. The city could realize significant economic and financial gains due to the development of this site.

Additional economic development is direct tied to the city's "Capitalize Albany Vision 2001" plan, which sets forth comprehensive initiatives that include select downtown neighborhood redevelopment, the construction of the Albany Convention Center (primarily state-funded), and the refurbishment of the Albany Riverfront-Hudson River Way/Corning Park areas. The governor's proposed 2007 budget commits $75 million towards the development of the Albany Convention Center. An hotel, to be built there, is expected to be privately funded. All of these efforts are expected to entice new downtown residential and commercial development.

The assessed value of the city's property tax base, which had experienced declines in prior years, increased by a strong 14.7% from 2000 to 2003, due in part to a reassessment in 2003. However, as a result of several successful tax appeals, assessed value has declined 3.7% since 2003 to $3.44 billion in 2006. To date, no significant tax appeals remain outstanding. The city's next property revaluation will become effective for 2008. The $4.05 billion market value translates to a moderate $42,920 per capita. A sizeable 43% of Albany's real estate property is tax exempt, due to the large presence of government, education, and health care facilities. The leading taxpayers, which are primarily commercial in nature, account for a modest 8.4% of assessed value. Property values have stabilized, and residential property has begun to show healthy increases in value, with an average sale price of $174,000 in 2006 compared to $123,158 in 2003, $107,403 in 2002 and $95,307 in 2000.

Finances

The city's finances, which had deteriorated during the late 1990s, have begun to improve in the past several years following annual state aid payments in lieu of taxes (PILOTs) approved by the legislature (Section 19-A of the Public Lands Law), for the Empire State Plaza government complex, totaling $272.5 million for 30 years starting in fiscal 2000. Fiscal 2004 (December 31) closed with a solid $4.7 million surplus as a result of higher-than-expected state payments. The ending general fund balance was $11.5 million, or a healthier 8.2% of expenditures, of which $9.9 million was unreserved (7.1%). The city generated surpluses, albeit some modest, in the past four out of five fiscal years (2000-2004), ranging from $89,000 to $4.7 million. These have aided in rebuilding reserves after previous years of sizeable deficits that drastically reduced general fund reserves. Although still unaudited, fiscal 2005 finances are expected to close with another operating surplus, which will again contribute to growing the ending general fund balance to $15.5 million. Currently, all seven of the city's union contracts have expired, as of Dec. 31, 2005, and are under negotiation. However, the city budgeted for these expenses in the fiscal 2006 budget.

The city's fiscal 2006 budget is the sixth consecutive structurally balanced budget in 17 years and totals $145.1 million; it includes a 4.3% property tax rate increase, which translates to $2.0 million in new property tax revenues.

The budget also includes a 3.3% sales tax growth assumption. The city has met or exceeded sales tax revenues in only two of the past four years. During the 2004 state legislative session, the city was successful in altering the payment stream of the 19-A monies to receive an additional $6.0 million in both 2005 and 2006, with payments totaling $45 million for both years. The governor's 2007 executive budget proposes an amendment to the statute, which would provide significant budgetary relief to the city. Beginning in 2011, the difference in the amount between the originally scheduled 19-A payments ($272.2 million from 2000-2029, with $205.7 million remaining) and the newly proposed payments ($543.25 million and extending through 2039) will be pledged as a credit enhancement on the bonds to be issued for the construction of the hotel as part of the Albany Convention Center. Shortfalls in hotel operating revenues needed for debt service would result in a reduction in payments to the city. Although the city has a track record of producing late audits, management indicates that the fiscal 2005 audit should be out by September.

Debt

The city's projected overall debt burden is moderate at $2,003 per capita, or 4.7% of market value. If county and city school district debt is excluded, the debt burden drops to a low $1,155 per capita and 2.7% of market value. Debt-service carrying charges remained manageable at 9% of general fund expenditures in fiscal 2004. The city maintains a rapid debt amortization schedule, with 76% of new and existing GO bonded debt service retired in 10 years, and nearly 100% retired in 20 years. All bonded debt is scheduled to be retired by 2025. The city's five-year (2006-2010) capital improvement plan (CIP) is manageable, and totals $46.5 million, primarily for parks/recreation and police. A sizeable 67% is expected to come from bond issuance, 28% from other sources, and the remaining 5% from internal sources. Management anticipates issuing $2.25 million bond anticipation notes and $10 in revenue anticipation notes in the summer of 2006.